Mayor of London's response to the Industrial Strategy Green Paper

1. Overview

1.1. The Mayor of London (the Mayor) welcomes the opportunity to respond to the UK Government's Industrial Strategy Green Paper (ISGP).

1.2. The Mayor supports the UK Government's ambition to maximise the economic performance of the UK's regions to increase productivity and growth across the country, whilst ensuring the sustainability and inclusiveness of that growth. He is committed to London working with the rest of the UK in partnership to develop and implement a successful industrial strategy for the nation as a whole, and to strengthen London's relationship with other cities. Facilitating better collaboration in areas of mutual strength in this way will support business growth and innovation across the UK.

1.3. London's economy is and will remain strong, but the city also displays significant contrasts and inequalities, which the Mayor is determined to tackle. We also face massive new challenges post-Brexit, for the city to ensure that our established and emerging world-class economic sectors continue to have access to markets, funding and talent. At the global scale, investment, trade, innovation and talent are increasingly located within and between cities. It therefore follows logically that an industrial strategy must be built around real economic entities like cities, and that London should have its own industrial strategy, led by the Mayor.

1.4. A critical component of an industrial strategy is the ability both to identify emerging growth sectors and for public policy to be nimble enough to respond accordingly. This is not about picking winners, but about supporting success. In many instances, cities are much better placed to identify emerging trends and new growth sectors than national government, as they are 'closer to the ground'. They can work alongside and within these trends to develop public policy interventions that support and nurture growth, for example through skills, infrastructure and finance.

1.5. The Mayor agrees that businesses must be at the forefront of the industrial strategy. Our own experience has shown that business leadership is vital. To maximise the impact of the industrial strategy, the enabling role cities play needs to be explicitly acknowledged and supported by giving them the freedom and flexibility they need to work with business leaders, industry and local authorities to promote growth. We wish to further discuss with the Government how a city-focused industrial strategy could work for London, as well as for other cities.

1.6. Our response sets out how London's growth supports UK national growth, identifies some of the core challenges London is facing and our strategic response to them, and makes the case for further devolution of powers and funding to the Mayor.

1.7. This response has been prepared by the Greater London Authority (GLA). An overview of the GLA, its powers and budget, is provided in Annex 6.

2. London's economic strengths and how this benefits national growth

2.1. London is an international city with a long history shaped by globalisation. With a population of almost 8.7 million, its success, both historic and future, is directly linked to its ability to attract leading companies and talented workers, and to trade within the UK, the EU and rest of the world. As measured by GVA, London's total economic output was worth around £378 billion in 2015, accounting for 22.7 per cent of the UK's total GVA, up from 18.7 per cent in 1997. This is despite London only accounting for 13.9 per cent of the UK population. The average London worker is more productive –

with GVA per workforce job around 36.2 per cent higher than in the rest of the country[1], which demonstrates the importance of London as a generator of national wealth.

2.2. International and domestic firms choose to locate in London because of the many inherent and long-standing benefits the city provides – the English language, access to a large and highly skilled labour market (over 55 per cent of London's population aged 21 and over are graduates)[2], established industry clusters, exceptionally strong and varied institutions, clear regulatory frameworks, the British legal system, a favourable time zone, a temperate climate and efficient transport infrastructure support a highly productive geographic concentration of jobs and economic activity.

2.3. London's economy is highly specialised in finance and insurance, information and communications technology, and professional, scientific and technical activities. These sectors complement London's world-leading creative industries, its strong research sector and its rapidly growing low-carbon and environmental goods and services sector. London's competitive advantage has shifted to services as a consequence of global trade patterns, which means that much of the income generated by London comes out of its international service exports. A direct product of London's global orientation, the capacity of London's services sector is a UK-wide asset and could not be easily replicated anywhere else in the short, medium and possibly long term.

2.4. London is vital to the UK economy. Analysis undertaken by the London Finance Commission, reconvened by the Mayor in 2016, identified that broadly 30 per cent of the UK's economy-related tax take is generated by London. As such, the fiscal position of the UK Government is deeply linked to the success of London's economy. Our research shows that in 2013-14, London raised £34 billion more in taxes than was spent in London from public expenditure.[3] The growth of London's economy has profound effects on inter-regional trade with other parts of the UK. Evidence suggests that London and the rest of the UK grow in conjunction with each other.[4][5]

2.5. FDI plays an import role in economic growth. Analysis conducted by London & Partners shows that between 2003 and 2015, 12 per cent of foreign direct investment projects in the UK (amounting to over 500 projects) stemmed from an initial investment in London. These projects (labelled as London+) led to the creation of over 38,000 jobs outside of London, and contributed £7.6 billion to the UK economy. However, London & Partners estimate that at least 77 overseas agencies operating in London specifically aim to encourage companies to grow outside the UK. It is our view that better coordination of UK and London resources would help to encourage the expansion of more companies within the UK, rather than seeing them expand overseas.

2.6. London's economy has significant implications for supply chains in the wider UK economy. In particular sectors of the UK economy, such as construction and transport, investments in the capital can generate twice as much GVA and job creation outside London (but within the UK) than within it. Transport for London (TfL) supply chains alone support 60,000 jobs across the UK – from Scotland to Cornwall.[6] 62 per cent of Crossrail suppliers are currently based outside London - and 96 per cent are in the UK. Similar but more substantial nationwide benefits will result from Crossrail 2.

2.7. Other research undertaken by GLA Economics found that firms operating in London make deliberate choices to invest in other parts of the UK to support London-based activities. For example, Edinburgh, Manchester, Birmingham and Leeds have all seen growth in financial and professional services as businesses choose to 'nearshore' a range of activities, such as back-office functions and support

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[1] GLA Economics (2017), 'Working Paper 87: Productivity Trends: GVA per workforce job estimates for London and the UK, 1997 – 2015'
[2] London First (2017) London 2036: An agenda for jobs and growth
[3] GLA Economics analysis based on data from the City of London Corporation (see London's Finances and Revenues, at https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Londons-Financesand-Revenues.aspx) and national public finance figures, from the ONS.
[4] The correlation coefficient between growth in London and the other regions of the UK is positive
[5] GLA Economics (2014), 'Growing Together II: London and the UK Economy'
[6] Regeneris data in Transport for London Annual Report 2015/16.

centres. This allows them to benefit from proximity to offices based in London, but at a lower cost (because of lower wages, land costs etc.). Similarly, in the creative sector, films produced in London-based studios have drawn upon wider expertise or filming locations throughout the rest of the UK, which benefits local economies.

2.8. London's well-established tourism sector also benefits the rest of the country, with an increasing number of London-bound visitors choosing to add additional night stays elsewhere in the country. A 2012 London & Partners survey found that only 12 per cent of international tourists would have made a trip to the UK without a visit to London included in their itinerary.

2.9. Some have argued that London is a drain on the UK because it draws talent away from other parts of the country. However, the reality is more nuanced than that. While it is true that London benefits from a significant net inflow of young people, it also experiences a net outflow of older, well qualified people to the rest of the UK. Overall, more people leave London for other regions of the UK than come to London from other regions of the UK – a net outflow in terms of domestic migration. The situation can be better understood, therefore, as London attracting young people, educating them and providing valuable work experience, while 'exporting' very productive, valuable, older workers.

2.10. Overall, London is on many measures a very successful economy, which is internationally competitive in a number of areas. It is an asset to the UK. While more could be done to support economic activity across the rest of the country, diverting resources away from London will not only damage the capital, it will also damage the rest of the UK. We agree with the Government's statement that it wants 'London to continue to prosper, but the rest of the country needs to keep pace too' on page 14 of the Green Paper, but it should be emphasised that when London prospers, the rest of the country prospers too[7], as do taxation revenues[8].

2.11. The London Finance Commission's report "Devolution: a capital idea" report[9] stated that:

"London's economic health is important for the whole of the United Kingdom… Any threat to London's economic resilience is also a threat to other regions… The robustness of London's outward-looking and globally successful economy is more than ever important to the Exchequer and to UK economic growth.

Similarly, the Centre for Cities noted in 2014 that:

"…constraining London's growth will reduce national economic growth, and much of the investment that would have gone to the capital may go elsewhere in the world, rather than elsewhere in the UK."

2.12. The pattern of London's growth has been so different from other UK cities that there is a risk this industrial strategy is setting up false expectations by drawing too many comparisons between London and the rest of the UK. The Government should focus its analysis on comparing London and its performance with other global cities that perform similar roles - Paris, Frankfurt and New York, for example, rather than Manchester, Liverpool or Glasgow. Similarly, other UK cities should be benchmarked against their relative global peers. The industrial strategy needs to give much greater weight to the whole country's international competitiveness, which will naturally be led by London's economy over the medium term at least given its international orientation - and any future industrial strategy needs to be built around local circumstances, global positioning and specialisation.

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[7] See for instance: GLA Economics, September 2014, 'Growing Together II: London and the UK economy.' for the links between a strong London economy and strong UK economy.
[8] See for instance CEBR, November 2014, 'London's Finances and Revenues'. City of London Corporation. For London's tax export
[9] London Finance Commission, 2017, Devolution: A Capital Idea'

3. London's economic challenges

3.1. While, on the face of it, London is a prosperous global city, it still faces significant economic challenges. These include low rates of productivity growth, considerable inequalities and underemployment, skills shortages in key areas, an infrastructure backlog and high house prices.

3.2. London's GVA per employee lags significantly behind other top-performing cities in a similar class[10]. This largely reflects a weaker improvement in productivity per worker as the UK Government continues to underinvest in the public and private capital which would make people work more efficiently. Research undertaken by London First found that productivity growth has been relatively static in London since 2008, and that it lags behind European cities such as Paris and Madrid in terms of output per worker[11].

3.3. Analysis undertaken by London First determined that part of the reason for the levelling out of productivity in London is a result of the decline of the economic contribution of financial services since the financial crisis. It is also our view that the cost of doing business has increased in part because London's infrastructure growth is not keeping pace with the increases in jobs and people in this fast-growing city. Transport congestion also affects productivity, and it could get worse without investments such as Crossrail 2. In light of these challenges, the Mayor is concerned that productivity has not been acknowledged as an issue in the ISGP and he recommends that this strategy be linked up with the Government's Productivity Plan, released in 2015.

3.4. The Mayor is concerned that too many lower-skilled workers are not benefiting from London's success. London faces dual challenges of both underemployment and considerable in-work poverty. Whilst London's unemployment rate has improved, it is still higher than the national average by 0.9 percentage points (January 2017), with particularly high rates of youth unemployment (London comes second only to the North East of England). Meanwhile, the number of people enduring in-work poverty increased by 70 per cent over the last decade; this is largely associated with low-skilled and low-paid work. Almost 700,000 jobs in London pay below the London Living Wage, whilst 27 per cent of Londoners are now living in a low-income household after housing costs are taken into account.

3.5. Ensuring that the skills system is effective and responsive is critical to tackling these issues. London already has a significant skills shortage in key areas including construction, social care, health care and financial services. Employers in London repeatedly report skills-shortage vacancies and skills gaps in their workforce, which can have a negative impact on their potential to grow. Given the uncertainty surrounding the terms of Britain's exit from the EU, creating a more responsive skills system – as well as continued access to global talent - is more important than ever to meet employers' needs and, ultimately, to enable growth.

3.6. As we allude to above, infrastructure also poses challenges to London's economic prosperity. Whilst London leads across many global measures, it is not competitively ranked in terms of its infrastructure, and this has the potential to result in it falling behind other global cities in terms of capacity to attract investment and skilled labour and to provide high value-add jobs.

3.7. The London Infrastructure Plan 2050 (LIP 2050)[12] highlights the scale of the challenge facing London as the city's population grows. London's population has been growing continuously for the last thirty years, with a noticeable acceleration in the rate of growth over the past decade - and in February 2015, it surpassed its previous population peak of 8.6 million (set in 1939). Growth at this scale places considerable pressure on infrastructure – particularly housing and the transport network, as well as

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[10] GLA Economics, 2016, 'London in comparison with other global cities'.
[11] London First, 2017, 'London 2036: an agenda for jobs and growth'.
[12] Mayor of London, 2014, 'London Infrastructure Plan 2050'

energy, water and digital infrastructure. London's house prices are high by global standards, and will only be addressed through the provision of more homes. It is estimated that London will need at least 50,000 new homes per year and according to the LIP 2050, this growth needs to be supported by a 50 per cent increase in transport capacity, a 20 per cent increase in energy supply and additional measures to secure water supply in order to meet the demands of growth[13].

3.8. London's capacity to invest in transport, as well as energy, water, waste and housing infrastructure is hampered by a lack of fiscal and political autonomy, as demonstrated by research undertaken by the University of Toronto for the reconvened London Finance Commission[14]. Many of London's competitor cities are able to use their greater freedoms to invest in new infrastructure, as well as to pursue global business, talent and investment more actively. In recent years, city states such as Dubai, Hong Kong and Singapore have all experienced strong rates of growth alongside significant investment in transport, housing and modern energy and water infrastructure.

3.9. In terms of the future structure of London's economy, GLA Economics' employment projections suggest that London will continue to specialise in services. Much of London's financial services, insurance and professional service sectors are globally mobile and flexible, and successive generations of technological change will enable further increases in mobility and flexibility. If there is a perception that another city can offer better business conditions than London (e.g. New York, Frankfurt, Amsterdam or Singapore), it represents a risk to London.

4. Supporting London's leading global and European role post Brexit

4.1. In the weeks immediately following the referendum, the Mayor embarked on a major campaign to signal to the world that despite the UK's decision to leave the EU, the city remains open for investment, talent and trade – '#LondonIsOpen'. This campaign has been effective in reaching its target audience and continues to have strong support from business leaders and the wider community. Since then, as the UK Government's negotiating position has evolved, the Mayor has set out his priorities on behalf of London in terms of the UK's negotiations with the EU27 in a published response to the Government's White Paper. The Mayor meets regularly with the Secretary of State for Exiting the EU to discuss London's specific requirements.

4.2. Though many businesses are confident that the UK will be able to strike some form of trade deal with the EU, there is a significant risk this will not be accomplished within two years. The Mayor believes that the Government should agree an interim deal that would define the UK's temporary relationship with the EU while trade negotiations are completed and the new relationship phased in. This arrangement could, as much as is appropriate, replicate the market access provided by the European Economic Area in order to provide the medium-term certainty that business requires.

4.3. If the UK were to fall back to World Trade Organisation (WTO) rules for trade, our exports would be subject to tariff and non-tariff barriers which would make them more expensive, less profitable or potentially unavailable on the continent. The Mayor believes that the Prime Minister's assertion that 'no deal for Britain is better than a bad deal for Britain' is untrue, as a failure to reach an agreement to eliminate tariff and non-tariff barriers to trade with the UK's single largest market would represent the worst-case scenario for the economy of London and of the UK.

4.4.The Mayor believes that London's role as the leading global financial centre brings benefits not just to London and the UK but also to Europe. If London's role were diminished and some activities distributed around a number of second-level financial centres in Europe, some of the benefits of the London eco-system and the depth and breadth of the financial markets concentrated in London would be lost. Rival global financial centres such as New York and Singapore would benefit in this scenario, rather than other cities in Europe

[13] GLA (2015), London Infrastructure Plan 2050
[14] Slack, E (2016), International Comparison of Global City Financing, University of Toronto, prepared for London Finance Commission 2.

4.5. The Mayor believes the Government should guarantee to all EU citizens currently living in the UK that they can remain here post Brexit. He believes that the Government should offer this guarantee before negotiations with the EU begin, whether or not they have received reciprocal commitments for British nationals from all other European countries. Given how many sectors rely on EU citizens, any threat to their continued residence in London is also a threat to the city's economic competitiveness.

4.6. London and the UK need a flexible visa system that attracts talent from across the globe across a range of skills needs. Talented migrants fill skills gaps in London's economy, particularly in STEM-based occupations. London also needs mid-skilled and lower-skilled migrants to support sectors that are cyclical in nature – e.g. construction - and sectors where employers struggle to recruit – such as nursing, social care, hospitality and tourism. Should the Government pursue a strategy of restricting lower-skilled immigration, it will be a challenge to train low-income Londoners to fill roles previously filled by migrants, which will require supportive Government policy and initiatives.

5. Our industrial strategy for London: positioning London as the world's greatest city for business and inclusive and sustainable growth

5.1. In his recently released vision document, A City for All Londoners[15], the Mayor committed to ensuring that all Londoners have an opportunity to benefit equally and share in the city's success. London's economy will also need to become low carbon, resource efficient and climate resilient. This approach will be further developed by the Mayor as he prepares his statutory Economic Development Strategy (EDS) for London in the coming year, the key aspects of which are set out in the table below.

The Mayor's Economic Priorities

1. **A FAIRER, MORE INCLUSIVE ECONOMY** – Making London's economy work, and providing opportunities, for all Londoners:
    a. Improving employability
    b. Reducing barriers to employment access
    c. Improving STEM provision
    d. Fair working practices
    e. Promoting equality and diversity
2. **THE WORLD'S GREATEST CITY FOR BUSINESS** – Sustaining and enhancing London's status as a globally competitive city, through making it easier to do business, attract talent, and commercialise new ideas:
    a. Open for business
    b. Globally connected and easy to get around
    c. The most talented workforce in the world
    d. Creative and innovative
    e. International city of learning, research and development
    f. The best city to start and grow a business
3. **GROWTH AND REGENERATION ACROSS THE CAPITAL –** Investing in the structural drivers of growth which support London's functioning as a low carbon, resource efficient city:
    a. Accommodating population growth, and providing space for economic expansion
    b. Supporting the delivery of 21st century infrastructure to enable growth, support productivity and become net zero carbon by 2050

[15] https://www.london.gov.uk/sites/default/files/city_for_all_londoners_nov_2016.pdf

c. Enabling the transition to a low carbon circular economy that allows cleaner, greener growth
d. Securing London with the fiscal powers it needs to invest in growth

5.2. The Mayor's devolved, statutory responsibilities mean that in London, economic initiatives, transport and environmental infrastructure investment and land-use planning work closely together. All the Mayor's statutory strategies are being developed in close concert, and it is his view that the development of the Government's industrial strategy at the national level presents a unique opportunity to align actions and areas of activity by central government and by the GLA.

Supporting growth through devolution

5.2.1. The Mayor supports the emphasis outlined in the ISGP on improving the economic performance of all regions. The most effective way of doing this will be to give cities and regions much greater freedom to set their own direction, manage their own budgets and income, and integrate services. The Mayor believes that devolution – the decentralisation of powers, including fiscal controls, from Whitehall to London and other areas – should be at the centre of the implementation of the industrial strategy. In this regard the Mayor supports the establishment of 'Ministerial Forums on the Industrial Strategy with each of the Devolved Administrations' on p. 23 of the ISGP. However, it is his view that London, newly formed combined authorities and Metro Mayors (to be elected this spring) should also be included in this or a similar ministerial-led processes. In the context of devolution, there is an important role for national government to help convene key stakeholders working in large functional economic geographies, as for the Northern Powerhouse, the Midlands Engine and elsewhere. London and the Wider South East comprise the largest and most economically significant functional economic region of the UK and would benefit from cabinet ministerial oversight and interest.

5.2.2. The Mayor has supported the Government's recent moves to give local areas more control, for example through City Deals and business rates retention. However, these measures are small compared with the devolution of powers enjoyed by the devolved nations and by many of London's competitor cities in other countries. Current measures do not constitute a practical form of governance for the level of ambition the Government has set out. The Mayor argues strongly that the devolution settlement currently in place in London (and especially in the wider English regions) risks hampering the effective delivery of the industrial strategy. As outlined in both reports of the London Finance Commission, further devolution of powers to the capital would aid the effective delivery of economic policy within London.

5.2.3. We need a consistent and consistently applied set of principles governing sector 'deals' and a clear long-term framework for devolution, including a statement from the Government of its desired goal for the overall rebalancing of power in England. These powers need to range from control over a broader and more stable tax base, through to decision making over land use, from skills and education funding, through to health and social care delivery. Stronger fiscal controls at the local level will support the delivery of more integrated and efficient services to promote jobs and growth.

5.2.4. Businesses must be at the centre of the industrial strategy, but they require the full backing of their cities if they are to deliver on the ambitions set out in the strategy, and cities must be equipped to rise to the challenge. The omission from the strategy of the fundamental role of cities in supporting sectoral growth is of concern. The Mayor calls for cities to be fully equipped to work with their business leaders and institutions to respond to the unique challenges they face. Cities need a flexible innovation fund to support business growth, to maximise collaboration within and between different sectors, and across regions.

5.3. **A socially inclusive city and economy**

5.3.1. Social integration and mobility form important components of the Mayor's economic agenda. We therefore welcome the central aim, outlined on page 3 of the ISGP to 'deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East'. We also want all Londoners to benefit from the city's success, so that opportunity and prosperity are shared. That means tackling discrimination and disadvantage, and making London fairer by enabling all Londoners to share in our city's prosperity. However, a number of aspects of London's economy are not as fair as the Mayor would like.

5.3.2. The following are some, but by no means all, of the examples of the way that this unfairness can manifest itself:

- Not all workers enjoy adequate work-place rights nor are paid at least the London Living Wage. The Mayor wants all Londoners to be paid and treated fairly by their employers.
- Some people and groups continue to face discrimination in the labour market. The Mayor wants all Londoners to be treated fairly regardless of their gender, age, ethnicity, faith, sexual orientation or disability.
- There are a number of groups who are more likely to be unemployed than others. For example, disabled people who want to work are less likely to be in employment than those without disabilities. BAME Londoners are less likely to be employed than white Londoners. Women with children who want to work – and lone parents in particular – have particularly low employment rates compared to the rest of the UK. The Mayor wants to see a narrowing of these employment gaps, and others, over time.
- Too many people are unable to access or afford the financial advice and products they need to manage everyday tasks, fully engage in society, and plan for the future. The Mayor wants to see a reduction in levels of problem debt, unbanked or uninsured households, as well as increases in financial literacy and awareness and take-up of affordable credit products and debt advice services.

5.3.3. As the Prime Minister's foreword to the ISGP states: 'Last summer's referendum was not simply a vote to leave the European Union, it was an instruction to the Government to change the way our country works – and the people for whom it works – forever'. In view of this statement and of the Mayor's aims outlined above, we are concerned that the ISGP makes no reference to the need to improve the quality of work for everyone. The focus of the strategy's 10 pillars on measures like spending on R&D, infrastructure, exports and increasing the number of people with STEM skills are all sensible ways to promote growth in our best-performing sectors and companies. However, it is less clear that these areas are going to be transformative for people who work in lower paid and lower productivity employment. For example, in the health and social-work sectors, the average GVA per worker in London in 2014 was £30,133, around half that of the average of all sectors (£58,374). The Mayor would welcome a greater focus on this within the industrial strategy – with a pillar on improving quality of work for everyone.

5.3.4. The Mayor supports the Government's decision to commission a review into 'modern employment' practices, led by Matthew Taylor. He also welcomes the steps it has taken in publishing a Green Paper to understand how to improve corporate governance and stewardship, and the way this could help improve how senior executive reward is set in relation to average workforce pay and how employee voice is strengthened within decision making. There are also various Government departments with responsibilities to set and enforce policy on different sectors and aspects of employment that could benefit from the issues set out in the ISGP. The Mayor would welcome further clarity about how these departments and ongoing reviews are intended to inform and help to implement the ISGP.

Our response to the ten pillars

6. Pillar 1: Investing in science, research and innovation

6.1. Background

- Having a world-class higher-education sector is vital for innovation and growth. London's world-class higher education and research institutions have been essential to the growth of its life sciences sector, for example, which alone generates £35.7 billion turnover in London and the Wider South East[16].
- The Mayor believes it should be a key national priority for Government to maintain and extend the strength of London's world-class research base and support research and business collaboration nationally, across the EU and globally, so that London businesses, universities and research organisations can continue to work together to preserve and promote the cluster's economic success.
- Government must ensure that existing levels of research spending in London and the Wider South East, including the level of research funding received from the EU, are maintained or expanded post 2020. There is clear evidence that the benefits of R&D spending are felt throughout the UK economy and not just in the region in which it occurs. Research funding in London, as a share of GVA, is presently less than in Scotland, the North East, the South East and the East of England.
- **In order to maximise the economic benefits of the UK's research base, the Government needs to enable cities to strengthen their unique innovation ecosystems**.[17] Cities need a flexible innovation fund if they are to respond in an agile way to emerging opportunities, more proactively support business growth needs, and maximise collaboration within and between different sectors, and across regions. In London particularly, the scale and institutional complexity can make it hard for smaller firms to know how to access the expertise that they need and where to find the right collaboration partners. MedCity, which is jointly funded by the Mayor and the Higher Education Funding Council in England, is one example of successful local innovation promotion.
- Adopting only a top-down, centralised approach to innovation, run on an individual sector-by-sector basis, will not have the required impact on national productivity. The challenges all cities face are different, and effective support needs to be tailored and targeted. A matrix approach (both top down and bottom up) is therefore necessary.
- Making more public sector data publicly available can promote innovation as well as encouraging competition and efficiency in public-sector procurement. For example, TfL's decision to make data freely and openly available has stimulated innovation and new markets in customer information faster than it could ever have delivered itself. More than 11,000 developers have registered to receive open data sets, which now power over 600 apps. An independent study in 2013 reviewed the value of public-sector information for the UK. It estimated that TfL's open data approach saves passengers up to £58 million per annum in time, against a £1 million investment in making the feeds reliably available. Usage of the feeds has, since then, doubled.

6.2. Asks of the Government

- The Mayor requests that a **significant proportion** of innovation funding is devolved to cities that have the institutional capacity to deliver. **These cities should develop Local Innovation Plans in partnership with BEIS and Research and Innovation UK, building on the capacity of cities, enabling the business and institutional leadership required to respond to local growth needs, and maximising cross-city collaboration** (enhanced through matching funds and leveraging private finance).
- The Mayor requests that a proportion of innovation funding is gradually devolved to enable cities to tailor support to meet their own unique innovation needs and maximise business growth. To provide some broad examples, in London this could be used as follows.

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[16] http://www.medcitymap.com/

[17] The core challenge cities face to maximising the economic output is often addressing coordination and information market failures across that ecosystem (for example, supporting businesses to find and access expertise across an often complex higher education landscape).

- **To deploy research and proof-of-concept funding to tackle UK city-based challenges across medtech, cleantech and govtech applications** (amongst others), using London and UK cities as a test bed. There is a role for national government to help coordinate, but cities need to be in the lead - collaborating with each other where sectoral strengths align, identifying joint challenges and the support their sectors need to respond, and ensuring commercial applicability and clearer routes to market.
- **To trial, in collaboration with other UK cities, new approaches to supporting business-to-business innovation**, linking innovating SMEs to corporate R&D need and strengthening innovation and collaboration across national supply chains.
- To increase cross-institutional collaboration by **creating a science and technology research collaboration fund across London and the Wider South East**, which would be open to UK-wide research and business partners, leveraging our rich science and technology base to support UK centres of excellence (such as through a hub and spoke model). This kind of fund would incentivise city and institutional collaboration where competitive tensions exist, but there is more to be gained from bringing respective strengths together.
- **To improve the linkages and broker relationships between higher-education infrastructure, equipment and expertise - and business innovation need**. This should include mechanisms to better link up foreign direct investment opportunities with the research base of cities.
- **To strengthen the entrepreneurial drive across universities to inspire students and celebrate risk taking** - for example, through drawing on an entrepreneurial alumni base to advise and support existing student cohorts, and putting in place programmes that will encourage a more commercial mind set across academia.
- **To trial, in collaboration with other UK cities, new co-creation models that put the user at the centre of service delivery, enabling consumers to work with innovators to create better ideas, products and services.** We propose initial trials in govtech and cleantech, where user behaviour is integral to the success of new business models. We would welcome collaboration with other UK cities that have tried and tested different models.
- See section 13 for further innovation requirements at the city level.

- Complementing this city-based approach, some innovation policy interventions are best implemented nationally, such as overseeing the national allocation of research funding through Research Councils UK. Additional national policy interventions that would support innovation include the following.
  - **Addressing VAT obstacles to public-private sector collaboration in university research buildings and publicly funded or charity research institutions**.
  - **Addressing market failures in the availability of patient capital**, and the availability of later-stage funding that is critical to successful commercialisation and business scale up. As HMT is aware, the Mayor is keen to help the UK design a 'Fund of Funds' solution for the UK as a whole that would help to address this gap through bringing in a wider range of investors and addressing some of the structural challenges in life sciences investment more specifically (see annex 5).
  - **Supporting improved coordination of public sector innovation** by facilitating information and idea sharing across sectors and geographies. This could lead to reduced risk of duplicated effort, more efficient use of public resources and greater propagation and adoption of ideas. For example, in the transport industry, greater collaboration between stakeholders (such as transport authorities, local councils, Network Rail and Highways England) could allow for the coordination of testing and the regulation of emerging technologies.

7. Pillar 2: Developing skills

7.1. Background

- Access to talent and skills from across the EU and internationally is central to the economic growth of UK cities. It will remain important for the vitality of the national economy and cannot be separated from a successful industrial strategy. The strategy needs to be underpinned by a flexible immigration system that allows for talent to move to UK cities.

- London, for example, is home to the highest percentage of graduates of any major city, both home grown and from overseas. This readily available pool of talent is one of the main reasons that businesses choose to locate and invest in London. The Mayor is concerned that if the Government decides to prioritise controls over immigration above economic growth, it would have a negative impact on the availability of skills in the capital and other cities.
- The Mayor agrees with the view of the Association of Colleges that it is important to maintain a clear distinction between adult basic skills, and English and maths in 16-18 year-old study programmes.
- One third of young people continue to fail to achieve grade 4 (previously GCSE grade C) or above in mathematics - the 'pass' grade recognised by employers and Further and Higher-Education institutions. Our economy simply cannot afford to write off so many young people on the basis of their relative rather than actual attainment.
- There must be a carefully considered approach to the introduction of the new basic digital skills entitlement. It should allow adults who are considered to be 'digitally excluded' to access targeted, flexible training, utilising existing provision and systems that are connected to communities (rather than simply resulting in the creation of a new, formal qualification).
- Given the pace of technological change and the impact it is having on the nature of jobs, more detail is needed on how the 15 technical routes identified will be constantly reviewed and refreshed to account for the emergence of new occupations, especially those that may not fit within the routes as currently defined. It is also vitally important that smaller businesses are engaged and supported to guide how the 15 routes are set up and reviewed.
- Government will need to articulate its approach to defining the scope of certain Technical Education pathways. For example, the Creative and Design pathway will need to provide training for nine distinct industry sub sectors.
- The creative industries are a growth sector for the UK economy. They account for one in every 17 jobs and are thought to be worth £87bn a year to the country.[18] Yet there is a serious disconnect between the needs of the industry and the national curriculum and priority subjects of the EBacc – and the number of hours of art, drama and music taught has fallen dramatically since 2010.
- One way to successfully increase the take up of Apprenticeships will be to make available more high-quality pre-Apprenticeship support, to ensure that prospective Apprentices have the basic employability skills needed to progress into Apprenticeship roles.
- Clear and coherent information is needed on learner outcomes for those leaving or completing courses in Further Education and Apprenticeships to help inform the choices of prospective learners and employers. This should include outcomes relating to progression in employment and earnings, drawing on information held by DWP and HMRC, which would require a nationally driven and consistent approach.
- The Mayor welcomes the Government's plans to address the lack of coordination and responsiveness to identifying skills gaps and shortages. However, the Mayor recommends that any new single and authoritative view on the gaps faced by the UK should take into account city-regional dynamics and local industry issues.
- In the case of the transport sector, for example, better information on pipeline infrastructure projects and their skills implications would be useful. TfL is a signatory of a national Transport Infrastructure Skills Strategy. Similar strategies for other sectors could also be developed with Government support.
- The Mayor recommends that as well as considering current skills gaps, mechanisms should be put in place to support horizon scanning to ensure that the skills of tomorrow are being trained for today.

7.2. Asks of the Government

[18] Creative Industries Council, 2017 UK Creative Overview – facts and figures

- **As set out above, the Mayor believes the Government should guarantee that all EU citizens currently living in the UK are able to remain post Brexit. Given how many sectors rely on EU citizens, any threat to their continued residence in London is also a threat to the city's economic competitiveness.**
- **UK cities need a flexible immigration system that responds to demand, not one that places additional costs and burdens on employers. If the Government is unable to ensure this flexibility, then the Mayor calls for London to have greater control over the allocation of work permits in the capital** (the same system could also work in other cities).
- For cities to thrive, they require stronger levers at the local level to support the delivery of more integrated, effective and efficient services to promote jobs and growth. To this end, **London needs a bespoke skills devolution deal, which allows for a strategic, whole-system approach to post-16 skills**. This could include the following.
    - Devolution of the 16-19 budget and tangible strategic influence over 16-19 provision in the capital, alongside the devolved Adult Education Budget.
    - The levers and funding to create a coherent all-age careers offer in London.
    - Devolving in full funds raised by the Apprenticeship Levy to London's government, to support young Londoners and London businesses develop a wider range of skills and employment initiatives, as decided by London's government.
    - Replacement funding for European Structural and Investment Funds, which should be devolved to the GLA to provide continued local support for basic skills, wrap-around and other employability support.
    - A pilot to raise awareness and promote the take-up of advanced learner loans, to be developed and delivered by the GLA, working with the Government.

- Joint working between the GLA and the Institute for Apprenticeships and Technical Education should be formalised and should include the following.
    - Ensuring that the 'Transition Year' supports clear progression routes and provides structured work experience relevant to the courses learners are undertaking.
    - Government to provide the Standard Occupation Classification (SOC) codes to which the 15 routes relate.
    - Government to provide the comparative statistics on what proportion of occupations are covered by the new technical education system as compared to the current system (and to highlight any occupations that are no longer covered).
    - In the absence of the UK Commission for Employment and Skills (UKCES) in the future, Government to ensure that data on employer demand is available, and that skills shortages across all sectors and different business sizes, nationally and regionally, are clearly articulated.
- **Digital skills should be integrated within education and accessible to all**. This should include the following.
    - Government (and the GLA, once the Adult Education Budget is devolved in 2019/20) to ensure that the new digital skills entitlement is available to all 'digitally excluded adults', making it available through targeted, flexible training in the community as well as formal settings.
    - Government to ensure digital skills are integrated within the new 15 technical routes and all Apprenticeship standards.
    - Government to ensure all secondary schools make digital literacy available to all learners at key stages 3 and 4.

- Bridge the gap between the deprioritisation of arts and cultural education in primary and secondary school and the required talent pipeline of creative talent to support this growing sector.

8. Pillar 3: Upgrading infrastructure

8.1. Background

- Improving infrastructure is a national priority. All parts of the UK will require targeted infrastructure investment to support sustainable economic growth, enhance the UK's international competitiveness and improve quality of life.
- As set out above, London faces a significant infrastructure challenge. The *London Infrastructure Plan 2050* (published in 2014) identified a number of issues that are having a negative impact on infrastructure in London, including ageing assets, a lack of capacity, funding shortfalls and fragmented governance arrangements. London is investing in major infrastructure projects and improvements to support continued population growth, reduce congestion and improve air quality, but there is more to be done to ensure the continued success of both London and the UK.
- Transport infrastructure is critical to sustaining London's competitive clustering of industry and its highly productive economy. The Mayor is in the process of identifying new transport infrastructure requirements as part of his Transport Strategy, which informs TfL's investment and planning, and he is also developing a Strategic Infrastructure Investment Programme for the capital.
- As well as looking forward to the benefits to be provided by Crossrail 1 (opening in 2018), which substantially enhances west-east connectivity, the Mayor is now looking to the future and has placed Crossrail 2 at the heart of his Transport Strategy. Crossrail 2 is a transformative strategic project that will reinforce access to London's highly productive central core, whilst also unlocking 200,000 new homes and jobs along the corridor. The Mayor believes that the project is integral not only to London's future growth, but also to wealth generation in the rest of the UK. The next step in realising this scheme is agreeing funding options and proceeding to a hybrid bill as soon as possible within the next Parliament.
- However, transport infrastructure encompasses more than just public transport. Improving aviation capacity in the south-east is crucial to the economic success of the whole country. The Government has announced its intention to expand Heathrow, yet this capacity solution will not be implemented until the mid-2030s. Heathrow is already running at 99 per cent capacity, which means that the UK is missing out on links to growing international markets – particularly those in Asia. As the immediate capacity constraints of London's international economic gateways need to be addressed, the Mayor favours expansion of Gatwick Airport – as it can be achieved more quickly, at lower cost and with less impact on the surrounding environment.
- In terms of environmental infrastructure, we note that energy, water, waste and green infrastructure are also critical to accommodating growth in a sustainable way, which will allow the city to make the transition to a low-carbon-resource economy.
- The Mayor has set a target for London to be net zero-carbon by 2050, in a way that has no adverse impact on air quality. He wants to provide reliable and affordable energy to homes and workplaces in an energy system that integrates heat, power, storage and smart technologies to achieve the optimum cost and carbon solution.
- The industrial strategy should recognise the intrinsic links between a city's energy system and the national energy system. One needs to be able to support and re-enforce the capacity and operation of the other.
- The GLA is currently working with relevant stakeholders to develop a business case that will support the establishment of a Development Corporation model to support investment ahead of need in electricity infrastructure, in a way that recognises market failures. Should such a model proceed, it is likely to require regulatory changes and the support of Government – but the benefits could include the faster unlocking of sites for development, which would create jobs and homes more quickly.
- London First found that a rapidly rising number of UK firms see broadband and mobile broadband as vital to their future success (over four in five businesses see more reliable fixed and mobile connectivity

as crucial to their growth)[19]. Some parts of London have very poor digital connectivity as a result of market failures. Improving it will be integral to supporting growth.

- London requires approximately 50,000 new homes per year, yet – for a number of reasons - only 28,000 were completed in 2015. Median London house prices in 2016 were 14 times median London earnings, compared to about four times in 1997. This poses a significant risk to London – reducing its ability to attract talented people, particularly in lower-paying (but high value-generating fields such as creative industries or scientific research). A lack of supply is part of the reason for house prices in London being amongst the highest in the world, and transport infrastructure is essential in realising new housing opportunities. As such, we are concerned by the lack of reference to the importance of housing supply in the Green Paper, particularly in London and the Wider South East.
- Across the sectors of transport, housing, water, waste, energy, education and digital, the *London Infrastructure Plan 2050* estimated that London will require £1.45 trillion in capital investment to support growth in the period to 2050. London does not have the funding levers available to support this. In the two sectors which are a focus of Mayoral responsibility – transport and affordable housing - London faces a £5 billion annual funding gap unless new sources of funding can be identified.
- Providing local authorities with more powers and fiscal responsibilities, as discussed earlier, can enable them to invest in more productive infrastructure. It can also allow them to innovate and raise funding through alternative sources, and increase private sector investment. London has already shown the value of locally funded infrastructure schemes – for example, financing against incremental business rates and developer contributions for the Northern Line Extension, and the Business Rates Supplement and Mayoral Community Infrastructure Levy for Crossrail. More than half the cost of Crossrail is being paid for by Londoners through local mechanisms.
- The Mayor welcomes the Government's 2017 Budget commitment to work with London to further develop alternative funding mechanisms, such as the Development Rights Auction Model. Consideration of such models and land value impacts should be a standard part of all proposals for new infrastructure. There is a demonstrable link between new, quality infrastructure and the uplifts in value of surrounding land. Most of this benefit accrues to land and property owners through windfall gains in the value of their assets, with a limited amount captured through local taxation mechanisms (e.g. the Business Rates Supplement and the Community Infrastructure Levy) and some dissipated to the exchequer through higher taxes as a result of growth. Land-value capture mechanisms offer a way of increasing private-sector investment in infrastructure by sharing these gains more equitably with public-sector proponents of infrastructure projects.
- Attracting private finance on suitable terms during the construction of projects can be challenging, particularly for large, capital-intensive projects. The Mayor supports the Government's proposal to explore measures which could assist projects during the construction phase, and would welcome the opportunity to work with the Government on the design of construction-only guarantees. The Government could also consider other mechanisms to assist with the implementation of alternative funding and financing mechanisms.

8.2. Asks of the Government

The Government should undertake the following.

- **Commit to Crossrail 2 by proceeding to a hybrid bill as soon as possible,** whilst being open to different funding and financing options for the scheme.
- **Examine new funding mechanisms for cities to plan and deliver more of their own infrastructure without the support of Government**. In the case of London, implement the recommendations of the London Finance Commission's recent report, *Devolution: a capital idea.*
- Undertake a strategic review of immediate aviation capacity options in the Wider South East to address capacity issues, in a way that meets local needs as well as those of the rest of the UK, and **identify options for realising aviation capacity faster, through the expansion of Gatwick Airport.**

[19] London First (2017) London 2036: An Agenda for Jobs and Growth

- Recognise the importance of housing in the delivery of the Government's industrial strategy, particularly in London and the South East, and **link outcomes resulting from the Housing White Paper to a future Industrial Strategy White Paper.**
- Support the development of a **robust pipeline of high-quality infrastructure schemes** to provide long-term assurance to investors, assist the private sector to develop a strong local skill base and catalyse efficiency in planning, procurement and construction.
- Integrate recommendations resulting from the National Infrastructure Assessment being undertaken by the National Infrastructure Commission, which recognise the importance of infrastructure in driving productivity outcomes.
- **Support a range of measures to support the smart and sustainable supply of energy** to London and the rest of the UK in order to facilitate growth. More detail is set out below in our response to Pillar 7.

9. Pillar 4: Supporting businesses to start and grow

9.1. <u>Background</u>

- London is undoubtedly at the forefront of start-up creation, with the highest number of SMEs in England. Companies employing fewer than 250 people provide half of London's employment and 45 per cent of annual turnover[20], and their contribution to the UK's economy is significant.
- Due to strong local conditions and a supportive entrepreneurial ecosystem, locating in London is often part of an entrepreneur's risk mitigation strategy – that is, it can be less risky in many cases to locate a start-up in London than in other parts of the country.
- Despite this advantage, many London-based SMEs feel penalised by the inherent challenges of operating in London. These challenges include high rents, a significant reduction in employment space due to Permitted Development Rights (PDR) and disproportionate impacts of the recent revaluation of business rates relative to the rest of the country, where nearly three quarters of small businesses surveyed by the Federation of Small Business (FSB) identified business rates as the most important issue they face. The FSB noted that London was in 'serious danger of losing its vital support system of micro and small businesses' due to the impacts of the recent rate revaluation, where the average micro business, which employs fewer than 10 people, now having to pay £17,000 to cover business rates from April 2017.
- In order to increase flexibility for start-ups, it will be necessary to reform the planning system and to identify more entrepreneurial models of providing commercial, industrial or retail space. Reviewing PDR might help place a higher value on the need for start-up space, in a similar vein to the value we attach to affordable housing.
- These challenges are felt much more acutely in London than elsewhere and do not apply UK-wide, which suggests that London businesses are not operating on a level playing field. Our concern is that **many businesses that choose to leave London may also be choosing to leave the UK, as they relocate to the EU, the US or elsewhere**. London has many successful start-ups, including unicorn entrepreneurs (startups valued at $1 billion or more) that are vulnerable to being bought out and relocated, and more needs to be done to retain such businesses within the UK, including by championing their success.
- Access to finance remains a challenge for many businesses in London. Research by TheCityUK found that the UK has been less strong in equity financing than the US for a long time. For example, banks drive only 19 per cent of external long-term financing in the US, compared with over 80 per cent in the UK. [21] London ranks behind California and New York on the availability of mid-level growth capital[22], both of which are supported by a strong, risk-tolerant investor culture.

[20] London First (2017) London 2036: An Agenda for Jobs and Growth
[21] TheCityUK, 2013, Alternative Finance for SMEs and mid-market companies
[22] EY, 2015, Fintech – on the cutting edge, 2016; Pitchbook, Annual VC Funding Report.

- The commitment to build on the success of the British Business Bank and the Business Growth Fund is welcome, but there remains a need within London to raise awareness of equity financing, to diversify funding streams and to increase the supply of finance for growing businesses.
- The Mayor is supporting businesses in London through a number of mechanisms, including the London Economic Action Partnership (LEAP), a local enterprise partnership. As a business-led initiative, with strong SME representation, LEAP is well placed to lead on specific initiatives to support businesses to start and grow. Annex 2 highlights some of these emerging opportunities.
- Although the emphasis on scale-ups is welcome, not all SMEs can or want to grow. More schemes and financial support should be put into working with existing SMEs that do not necessarily want to grow, but instead want to focus on long-term sustainability.
- According to the latest monitoring, some 1.6 million sq metres of office space in London is now at risk of conversion to residential through PDR. In Outer London, this approximates to almost a quarter of the office stock. Low availability of business premises is the greatest challenge London SMEs face, after (and related to) high rents. In the coming year, the Mayor will publish the London Office Policy Review, which will include strategic evidence to support boroughs with their Article 4 Directions, particularly in the Central Activities Zone, the Northern Isle of Dogs and Tech City. The Mayor wants to safeguard these nationally significant office locations.

9.2. Asks of the Government

- The Government should work with the Mayor to ensure an **early review of business rates both nationally and in London,** taking on board advice commissioned by LEAP and the FSB.
- **Expand the Seed Enterprise Investment Scheme and the Enterprise Investment Scheme over longer-term horizons**, ideally beyond five years to support sustainable business growth and scale up.
- The role of the European Investment Fund has been critical to partnering with the British Business Bank to finance a large number of start-up to mid-capital businesses. Losing this funding post-EU exit will have a huge impact on our ability to support business growth. To mitigate this change, **the British Business Bank must amplify the private-sector expertise of its commercial arm to become a stand-alone institution before exit** (the European Investment Fund employs over 350 people in its commercial arm, the British Business Bank just 10). One way to strengthen the pipeline of funding would be to allow pensions to invest into venture capital funds. Access to British Business Bank funding must also be expanded to cover London where clear blockages are holding back economic growth, such as access to mid-level growth capital.
- **The Government should encourage more flexible use of space for start-ups, such as meanwhile use of vacant property, and review the impact of PDR on business space. We also call on the Government to consider our proposal that PDR should only be allowed where a premise is minimally occupied, and that a percentage should be agreed with the Mayor of London.**
- European Funding plays a crucial role in skills, employment and business support in London. In total, the 2014-20 European Regional Development Fund allocation is around £160 million, and the European Social Fund is £422 million. **The Mayor therefore strongly advocates that Government replaces pound for pound the equivalent funding for London once the UK leaves the EU.**

10. Pillar 5: Improving Procurement

10.1. Background

- The GLA Group is a major procurer of goods and services from across the country, spending over £11 billion per year nationally. TfL's supply chain alone indirectly supports 60,000 jobs in the UK.
- Almost 80,000 people, or 1.4 per cent of London's workforce, are employed across the capital's transport, police and fire services (and at City Hall). The Mayor will also lead by example by ensuring that the whole of the GLA Group works to make its employment and procurement practices exemplary and aligns them with the goals of the Mayor's planned business compact.

- The GLA Group has established a 'Responsible Procurement Policy', which could be applied as a model for other Government departments and local authorities throughout the rest of the country. Targeted areas of this policy include embedding fair employment practices like the London Living Wage and equality and diversity considerations, investing in training, and applying circular economy principles.
- Responsible procurement led by the GLA Group and championed by the Mayor has the potential to create a massive ripple effect throughout all of London's service providers, which can fundamentally change the way that products and services are designed, provided and consumed.
- The Mayor supports the Government's commitment to stimulate innovation and promote economic growth through better government procurement processes. However, he also notes that it does not set out how the Social Value Act could be used to promote better social innovation, including realising better outcomes for society from government supply chains.
- The Government could go further by joining up data sources, for example company information, the National Infrastructure Pipeline, procurement platforms such as Contracts Finder and CompeteFor, and data from other government agencies. This could also help tailor initiatives flowing from the industrial strategy, for example to evaluate the effects of government spending and to identify formation of sector clusters in the UK. Expanded use of CompeteFor (or equivalent) beyond the infrastructure sector could help encourage competition in the supply chain of other sectors, and help tackle the limited visibility of supply chains across government. Indeed, CompeteFor and Contracts Finder have synergies which could be exploited further by merging them into a single system, potentially making it easier for companies to bid for public contracts and to manage and analyse public sector procurement data.

10.2. Asks of Government

- **The Government should adopt across Whitehall its own version of a responsible procurement strategy,** which will help suppliers to work towards similar definitions and measures around Social Value, including fair employment practices like paying the voluntary Living Wage. It should also promote 'environmental value', including the environmental performance of businesses and the environmental sustainability of their procurement practices to stimulate demand for low-carbon, resource-efficient goods and services.
- **The Government should also open up opportunities for procurement to more SMEs, recognising the challenges they face when engaging with these processes.** The Mayor advocates funding to create procurement innovation challenges for problems that multiple UK local authorities in the same city-region come across. London's two-tier system is the best proving ground for this, before the combined authorities are fully established. Government should support innovation brokerages that connect innovative SMEs with corporate and third-sector organisations that are long-term members of the public-sector supply chain.
- The Government should consider initiatives for **further joining up of public-sector data sources** to improve efficiency and competition in public sector procurement.

11. Pillar 6: Encouraging trade and inward investment

11.1. Background

- London is an asset for the whole country - it supports considerable UK-wide trading opportunities and inward investment.
- City-to-city links can play an important role in increasing exports, trade and investment. Increasing direct city-to-city links can be a catalyst to increased trade, which is a current focus for the Mayor.
- The Mayor's International Business Programme (MIBP) is an example of how a city model works. It has so far resulted in export deals worth over £12.7m from the first 100 companies on the programme, and over 70 per cent of the companies that have taken part have created new jobs.
- The MIBP model supports companies that are high-growth and ready to increase their export capability, working closely with private-sector partners. The offer to participants includes introductions

to mentors in London and in overseas cities, trade missions that introduce participants to international corporates, and workshops in London that help them to prepare for international expansion.

- At present, there is a noticeable gap in London for a coherent trade strategy, which could build upon the MIBP to provide bespoke support based on regional strengths and weaknesses, if funding were devolved from national schemes. In principle, this could be used to grow the export orientation of London's SMEs.
- The Mayor's evolving Tourism Strategy indicates that by 2025, London could welcome another 10.6 million international visits, an increase to 42.6 million from 31.8 million today. This kind of increase, however, relies on the right aviation capacity connected to the right overseas markets, and – where appropriate - the free movement of people. In view of the benefits of tourism to London and the UK, we are concerned about the impact the eventual Brexit deal could have on it.
- New fiscal powers, such as allowing the Mayor to establish small taxes such as a Tourism Levy (as recommended by the London Finance Commission) could support further investment to improve London's cultural offer, and make the city more attractive for visitors and other investors.

11.2. <u>Asks of Government</u>

The Government should undertake the following.

- **Devolve funding to support the development of a Greater London Trade Strategy jointly with the Department for International Trade, the GLA and London & Partners, as well as relevant local authorities.**
- Work with the ONS to develop **new information sets about trade flows within the country** to show the importance of the interactions between regions.
- **Act as a broker between regions to support the creation of new domestic markets (such as in precision manufactured homes) in light of London's growth.**
- **Direct additional funding to support SMEs to export to new markets. Such funding could be channelled via LEAP or other local enterprise partnerships.**
- Allow the Mayor to establish a **Tourism Levy** to support additional investment in London's cultural offer in order to make the city more attractive to visitors and residents.

12. Pillar 7: Delivering affordable energy and clean growth

12.1 <u>Background</u>

- The Mayor has set an ambitious target for London to be net zero carbon by 2050 and a global leader in tackling climate change. This will require considerable investment in London's buildings to reduce their energy demand) - and in London's energy system, so that it makes the most of its local and renewable energy resources and is able to supply low and ultimately zero-carbon energy to London's homes and businesses in a reliable, secure and affordable way.
- As London's population and economy grows, it will place increasing pressure on the energy system, especially the electricity network, as a greater proportion of transport and heating is electrified. This will be particularly challenging in Opportunity Areas and Areas of Intensification in London, where large amounts of new residential and commercial development will be located. Lonodn's energy system needs to be capable of meeting that demand in a timely way, enabling development to happen at the required pace.
- In future, cities will require far more integrated energy systems where heat, power, storage and smart technologies combine together at both the national and city level for the most effective use of existing energy resources. This kind of change will be necessary to meet energy demands whilst also reducing carbon.
- The scale of activity required in London creates an excellent opportunity for showcasing innovative demonstration projects that can illustrate how the UK can cost-effectively decarbonise its energy system and support the transition to a low-carbon, resource-efficient economy.

- The extensive programme of activity required for London to become zero carbon by 2050 includes reducing its energy demand, developing its energy distribution systems and utilising its local and renewable energy sources. It will involve a wide range of stakeholders and significant levels of investment. A 2016 report by Arup, commissioned by the GLA, identified that by 2020 the London smart cities market could be worth £10.7bn. £4.5bn of that could be in environmental services, with energy alone worth £1.7bn and water and waste each worth £1.4bn. These activities will create real market opportunities and London's businesses will be well placed to compete for a share of them, thus creating economic benefits directly from environmental activities.
- The industrial strategy should create the framework for UK businesses not only to help implement the UK's Emissions Reduction Plan, but to be able to benefit from the range of market opportunities created by it.
- Each of the Pillars identified in this strategy need to support not only economic growth but the transition to low-carbon, resource-efficient growth. Pillars 3, 5 and 7 will help drive demand for low-carbon activities and create the supporting infrastructure, and Pillars 1, 2, 4 and 5 will support the development of the UK's supply and value chain, ensuring UK businesses are highly competitive in this regard.

12.2 Asks of the Government

The Government should undertake the following.

- **Ensure that energy efficiency is recognised as a national infrastructure priority**. Whilst continuing to support and expand national programmes such as the Energy Commitment Obligation, Government should devolve its control and delivery to cities and local authorities. Informed by local priorities and integrated with existing local initiatives, this would render such programmes more effective and promote more sustainable local supply chains.
- **Provide innovation funding to London for large-scale pilot projects to create low-carbon neighbourhoods and districts in more cost-effective ways**. This would drive innovation through the use and testing of new approaches, technologies and products.
- **Actively support the Mayor to accelerate the roll-out of smart meters in London** and then ensure that regional and local government can access aggregated smart-meter data. This will also help to support the 350,000 London homes currently in fuel poverty.
- Use the industrial strategy to actively encourage all businesses that are producing waste heat to make it readily available to heat networks or adjacent buildings.
- **Designate district heat networks the same status as statutory utilities so that they are able to compete on a level playing field**. For example, district heat networks should be able to calculate their business rates using the same methodology as electricity or gas network operators.
- Provide funding to allow London and other cities to work with businesses that produce waste heat, in order to better understand how they could be encouraged to make their waste available for re-use.
- Establish a working group that will explore how **circular-economy principles** can be integrated into existing and new business models to promote the more effective use of resources and materials.

13. Cultivating world-leading sectors

13.1. Background

- We welcome the Government's commitment to providing additional support to sectors that have demonstrated potential for growth. We recommend that the Government consults the Competition and Markets Authority to advise on the content of sector deals to test how far public policy can go within the bounds of lawfulness.
- **Some of the UK's fastest growing and most globally competitive sectors are concentrated in London, including:**
  - Clean tech
  - Life sciences

- Creative industries
- Tech digital
- Financial services
- Advanced urban services

- **As set out above, London's economic prosperity supports growth across the country. It is therefore vital to support these high-growth sectors**, which face the following common challenges:
    - **The ability to effectively monetise Intellectual Property (IP)**. We need to strengthen IP to make the UK the best place in the world to monetise an idea (e.g. we need to address gaps in EU and UK design rights, as well as the 'first to show' caveat in EU directives).
    - **Access to talent**. We need a flexible immigration system, which provides access to both EU and non-EU talent and which is sufficiently responsive to the growth needs of firms in often fast-moving sectors, without placing an untenable bureaucratic burden on SMEs
    - **Affordable work and grow-on space**. We need workspace of the right type, in the right location.
    - **Access to finance.** We need this across different stages of firm growth, as different sectors face particular pinch points at different stages.
    - **Regulation**. We need to ensure UK regulation is harmonised with EU regulation, to create more certainty for businesses in the immediate term, whilst capitalising on the opportunity to be more fleet of foot post EU exit.
    - **Infrastructure requirements**. We need to consider these across transport, housing, energy, bespoke innovation, R&D space and digital connectivity.
- Getting the above policies right first and foremost is essential to maintaining the competitiveness of these sectors. Most relevant policy levers are currently national in scope and, indeed, many of the challenges set out above are best addressed by central government.
- However, businesses have identified several areas where **cities are better placed than central government to respond to locally specific market failures and to be more agile in responding to emerging growth opportunities. Cities have close working relationships with local business leaders and local institutions, a better understanding of the unique environment in which local firms operate, and an enhanced insight into where the future opportunities may align.**
- **The Mayor is calling for devolution of a significant proportion of existing funding streams to provide London (and other cities) with an innovation fund that would enable it to respond to business needs**. This will help implement the growth ambitions of the industrial strategy - particularly across sectors where existing funding is fragmented (such as in clean tech or med tech).
- The critical role cities play in addressing the coordination and information asymmetries that plague many developing clusters by supporting collaboration within and across sectors and cities, must be acknowledged and supported. **The Mayor is already doing that, for example through the work of MedCity, and is developing plans to support emerging growth clusters such as fashion in East London and a clean-tech cluster in West London. There is huge potential for cities to work with businesses and to build on this experience.** We are keen to share our experiences with other cities and to learn from others through cross-city collaborations with businesses where sectoral strengths align.
- Strong city leadership, working with local institutions and local business leaders, can help enable growth. Cities provide the strategic framework, and devolution of the necessary freedoms and flexibilities will allow them to play a full part in delivering the industrial strategy.
- Below we set out how devolved innovation funding can support both developed and emerging growth sectors, as examples of the type of national and local policy support that will be required to maximise growth.

13.2. **Clean-tech sector**

- The UK clean-tech sector is diverse and dispersed. The consequent risk of fragmentation means there is a clear need for city leadership to work with business to develop a tighter-knit and more networked cluster that can collectively punch greater weight.
- West London in particular offers a unique set of opportunities that would support the growth of this sector, with the development of a major innovation campus by Imperial College at White City and the simultaneous redevelopment of Old Oak and Park Royal into a smart and sustainable district. Bringing together Europe's top technical university and Europe's largest urban redevelopment has the clear potential to provide a home of global significance for the clean-tech sector. Once Crossrail and HS2 are complete in 2026, along with the links to Heathrow and the motorway system, this cluster will be positioned in the midst of the best communications and transportation infrastructure in the UK. **This area could provide an internationally connected showcase and focus for not just London's clean-tech sector, but for that of the UK.**
- London's low-carbon economy already generates around £30.4bn[23]. The sector has the potential to form a world-leading and globally connected clean-tech cluster – if London is given the freedom it needs to address the problem of a fragmented business base.
- The Mayor has therefore been working with the clean-tech business community to develop plans for supporting the growth of the sector. Partners include the European Institute for Technology's Climate Knowledge and Innovation Community (KIC) programme, Imperial College London and the London Clean Tech Cluster. To help the sector reach its economic potential, **a city innovation fund** has been made available for London to catalyse the regeneration of White City, Old Oak and Park Royal, and to achieve the following objectives:
    - **Establish a Centre for Clean Tech Innovation in White City and Old Oak** – to provide office, meeting and social space.
    - **Create a 2018 Clean Tech festival** – to serve as an international showcase to position the UK as a world leader.
    - **Create a city-wide London Clean Tech Network** – to encourage networking, collaboration and information events across London and UK cities.
    - **Establish an early stage manufacturing facility** – to help transform Old Oak and Park Royal into a smart and sustainable district.

13.3. **Life-sciences sector**

Please see our joint GLA/MedCity submission, developed with input from business leaders and representative bodies, to the Life Sciences Industrial Strategy – Annex 1.

13.4. **Creative sector**

- **As one of the UK's fastest growing sectors, London's creative industries generate £42b per annum and provide one in six jobs in the capital. Culture is the reason that four out of five visitors choose to visit the capital.**
- The Information Economy and Creative Industries sectors attract high levels of inward investment. In 2014/15 the creative industries brought 124 foreign direct investment projects into to the UK.
- London's creative industries are highly convergent across its own sub sectors and other parts of the economy, often unlocking innovation through the development of new products and services.
- The Mayor invests in the creative sector by funding sector agencies and trade bodies like the British Fashion Council, Film London, London Design Festival and UK Interactive Entertainment. The industrial strategy is an opportunity for the Government to commit additional investment in these institutions, which will accelerate growth nationally. This is particularly urgent given the loss of EU funding to these sectors.

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[23] GLA, 2015, London Low Carbon Market Snapshot - report

- The Mayor will invest in Creative Enterprise Zones. Based on the Business Enterprise Zone model, they will offer incentive packages for artists and creative enterprises to set down roots in an area, for example access to affordable workspace.
- The Mayor has launched a **bold vision to turn the Thames Estuary into a Production Corridor** - developing facilities for creative production from East London to Southend. This is an industrial strategy masterplan for the South East region building on the housing and transport infrastructure planned for this region. See **Annex 3** for the vision document, developed in partnership with the South East Local Enterprise Panel.
- **The Thames Estuary Production Corridor** is an example of regional development which will require government investment to shore up growth. In the absence of European Structural Investment Funding, the Government must replace the equivalent funding to secure long-term regional growth.

- **The Government should fund the development of the Thames Estuary Production Corridor, in particular** by investing in large-scale infrastructure for the creative industries, promoting regional collaborations between creative clusters, and by delivering a long-term digital strategy for the South East region.

An industrial strategy that builds on the creative economy must include **innovation funding** devolved to the city as set out in Section 6. For example, in London, the fashion sector would benefit from innovation funding for collaborative R&S projects (bringing together fashion technologists, designers, researchers and SMEs to stimulate new products and processes) and a fashion tech R&D space with the most advanced equipment for digital fabrication and printing (e.g. sustainable materials and wearable technologies).

National policy interventions will also be vital to support the continued growth of the sector as highlighted by industry bodies, including the following.

- o **Business Rates** - Government should develop a fair and proportionate model for determining business rate adjustments across the country.
- o **Skills** – Government should support the Mayor's skills strategy to meet the needs for the growth of the creative industries.
- o **R&D tax credits** – Government to expand eligibility to include creative industry SME's to claim R&D tax credits. E.g. Virtual/Augmented Reality and wearable technology.
- o **Broadband** – Government should ensure access to ultra-fast broadband (both fixed-line and mobile)

13.5. **Tech and digital sector**

- The digital technology sector has played an important role in driving innovation across more traditional industries. London has led much of this activity nationally, and this is an important reason for the UK's current global reputation in areas such as smart cities, fin tech, digital health, travel and retail tech. Supporting the continued growth of this sector in London is therefore of critical UK-wide importance.
- There are huge opportunities to build on existing growth and pursue further cross-sector and cross-city collaborations. The Mayor is passionate about working with existing institutions and business leaders (as well as the Catapults, Tech City UK, Tech UK, Tech London Advocates and the Smart London Board) to achieve these aims.
- London has already been collaborating with many cities, including the Scottish Cities Alliance, and is keen to develop further partnership working, including with Bristol, Manchester and Peterborough.
- London has the fourth largest tech ecosystem in the world and the largest in Europe. It has an estimated ecosystem value of £44 billion. This is great progress but our ambition must be to catch up with and one day overtake international competitor locations, such as Silicon Valley. To this end, the Mayor's activities will include launching the Digital Talent Programme, improving digital connectivity and championing tech businesses at home and abroad.
- **The Mayor also wants London – and other cities - to take a 'front foot' approach to prepare for new, disruptive services and business models, including new sectors of the digital**

economy such as the sharing economy. In order to support tech solutions that improve access to public services and information, he wants the resources to enable stronger coordination between the GLA and the London boroughs in a way that channels innovation from the tech sector.

- Opportunities are yet to be exploited in other areas that are ripe for investment and where London can build on existing strengths and establish global centres of excellence. These include virtual reality and robotics, cyber security, assisted living, gaming technology and sensor technologies at home – many of which will help to improve the lives of citizens.
- In order to support the development of this sector and maximise opportunities for disruption across other sectors, a **city innovation fund** is required to enable cities to work with local business leaders and local institutions to make the UK the best place in the world to create tech products.
    - **In order to build on London and other cities' expertise in machine learning and virtual-reality and artificial-intelligence businesses, we need to ensure the sector has the skills and infrastructure it needs to grow and compete globally. As part of this we will consider the case for establishing a virtual-reality lab and an artificial-intelligence lab, using a hub and spoke model with the Golden Triangle and other UK cities.**
    - It will be vital to maximise the innovative potential of London's smart-cities sector. The GLA commissioned a report from Arup that estimated that the London smart-city market could reach £13.4 billion by 2020. However, there are a number of challenges that local authorities need to overcome to encourage the govtech and civictech ecosystem in the UK. The first is that digital innovation and the demand for it is siloed, especially for smart lines of business (buildings, waste, water, energy, transport, health). The second is a lack of knowledge exchange between local authorities and providers on new business and investment models relating to the exploitation of data and the internet of things. Our procurement culture is not fast and adaptable enough to take advantage of innovation, and this stops new entrants and new innovation partnerships. **We want to develop an innovation partnership programme in London to kickstart the govtech and civictech ecosystem across the UK, which would include the development of common standards and the collective procurement of digital solutions.**

- With access to a city innovation fund, further progress can be made in the following.
    - **City procurement brokerage to bring all the players in the supply chain together. They will test and propagate new common standards in procurement for the internet of things and smart technologies so new innovation can easily scale and secure data**. They will connect innovative SMEs with corporate and third-sector organisations that are long-term members of the public sector supply chain.
    - **City data study programmes to bring the best ideas in new technologies and standards from higher education institutions (HEIs) to the start-ups that can quickly act and build a new product, service or platform.**
    - City Data Exchanges as the core of an expanded Challenger Business Programme, which explores new forms of city data, its exploitation and monetisation, data sharing agreements and licencing arrangements with the local authority as the 'honest broker' for innovation partnerships between start-ups and data holders in the corporate world.
    - **City innovation challenges and funding to engage the govtech sector's incubator and accelerator facilities and Britain's connected citizens** by building on models like the UK Govcamp, the Digital Catapult Things Connected testbed in London and ODI open data challenges.

13.6. Financial and related professional services

- London is home to world-leading financial and professional services sectors. In 2014, the UK's financial services trade surplus of £95 billion was double that of the next largest trade surpluses recorded in the US. This sectoral strength has clear benefits for the UK, not just London. Indeed, **in the UK two thirds of all jobs in this sector are located outside the capital.**

- London's financial and professional services centre provides businesses across the world with access to some of the best lawyers, financiers and consultants in the world. London is the top destination for large global companies looking to establish European headquarters. It is home to more foreign banks than any other financial centre, around a half of European investment banking activity is conducted here in the capital, which is also one of the world's largest insurance markets.
- The presence of many different sectors located alongside London's financial services businesses has led to successful cross-sector innovation, including fintech and carbon finance. Indeed, the carbon-finance sector in London had sales of £8.48 billion in 2014/15, which makes up over 95 per cent of the UK's activity in this area. Green finance is anotherstrength - a UNEP study stated how the City of London helps to develop "sustainable finance initiatives that are setting the agenda both domestically and internationally"[24]. These sectors will continue to grow as the world makes the necessary transition to a low-carbon circular economy.
- It is important that the 'sector deals' consider how to improve our competiveness and growth in faster-growing areas of the global financial and related professional market (including fintech and carbon finance) where we need to retain our competitive advantage against other financial centres post-Brexit.

13.7. **Advanced urban services**

- London is a major centre both nationally and globally for the provision, innovation and research in Advanced Urban Services, a sector that is directly involved in designing and creating the sustainable and inclusive cities of the future. It incorporates many traditional disciplines ranging from urban design and management to environmental and transport infrastructure, housing and planning, along with newer fields relating to digital technology, data and sustainability. The Mayor believes that Advanced Urban Services is a sector that has growth potential and is in discussions with the Future Cities Catapult and other partners with regard a proposed sector deal for this sector.

- There are overlaps with the activities of other sectors across our economy, including the activities of the cleantech sector, the knowledge created by our university and research sector, as well as the leading role UK SMEs play in urban open data, spatial data analysis, modelling and visualisation. As an example, London's architecture sector produced £1.7 billion in gross value added in 2015, broadly on a par with the GVA of London's civil engineering sector, and these services are exported worldwide.

- The benefits of this sector could be great. For example, a GLA commissioned report (Arup, 2016), identified that by 2020 £4.5.bn of the estimated annual £10.7bn Smart Cities market in London could be in environmental services (it could be £1.7bn in energy, £1.4bn in water and £1.4bn in waste).

14. Pillar 9: Driving growth across the whole country

14.1. Background

- The Mayor supports the Government's commitment to enable UK-wide growth. However, this commitment cannot be at the expense of ongoing investment and support within London. As we argue throughout this response, **London has an integral role driving growth across the whole country** (see section 2, in particular).
- As noted in the Green Paper, the divergence between the South East and the rest of the country has "been driven in part by the underperformance of many of the UK's cities." The Government should focus on improving the economic performance and competitiveness of all regions, by supporting those that are underperforming and ensuring that more productive areas can continue to prosper and succeed. There is international evidence that bigger cities are more productive than smaller ones. It follows that improving connections both within cities' own regions and between city regions will create significant economic performance benefits that are additional at the national level. This should not be

[24] UNEP, 2016, The United Kingdom: Global Hub, local dynamics – mapping the transition to a sustainable financial system

regarded as a ‘zero sum game’. In this view, the strategic problem is not whether we should invest to grow either London or our regional cities. There is strong case for doing both, particularly through schemes such as HS2, HS3 and Crossrail 2.

- Investment should seek to build on the comparative advantages of each area, not seek to replicate what has been achieved elsewhere. Strategic infrastructure investment, for example, can catalyse growth and improve productivity. But that investment needs to be targeted in the right way and to the right projects. We support the Government's commitment to prioritise highest value-for-money projects. Project selection should be based on robust and comprehensive assessments of costs and benefits, and decision making should factor in local and wider economic benefits. Per capita spending may not be a reliable indicator in this regard. We are encouraged by the establishment of the National Infrastructure Commission, which will help take some of the politics out of infrastructure prioritisation.
- London and the Wider South East region together represent the nation's economic power house. They form the most productive region in the country and account for nearly half its output, which means they make by far the biggest net contribution to the national exchequer. The Mayor, the East of England Local Government Association (EELGA) and South East England Councils (SEEC) have jointly established more effective light-touch collaboration arrangements for strategic policy and infrastructure investment across their three areas. The following 13 strategic infrastructure schemes and areas have been endorsed by the Wider South East Political Steering Group as initial priorities for joint promotion and lobbying.

- **Wider South East Political Steering Group: current infrastructure priorities**
- East West Rail and new Expressway road link (Oxford - Cambridge)
- North Downs Rail Link (Gatwick – Reading) including extension to Oxford
- A27/M27/A259 and rail corridor (Dover – Southampton)
- West Anglia Mainline and Crossrail 2 North (London – Stansted-Cambridge-Peterborough)
- Great Eastern Mainline (London – Ipswich – Norwich)
- Thames Gateway Essex: C2C and A13 (London – South Essex / London Gateway Port)
- Thames Gateway Kent: Crossrail 1 extension East and HS1 route (London – North Kent – Channel Tunnel)
- Lower Thames Crossing
- Brighton Mainline (London – Gatwick – Brighton)
- South West Mainline and Crossrail 2 South West (London – Surrey / southern access to Heathrow)
- Great Western Mainline (London – Reading / western access to Heathrow)
- Midlands and West Coast Mainline (London – Luton – Bedford / Milton Keynes)
- Felixstowe – Nuneaton / Midlands

- Similarly, the GLA has been an active participant in the Core Cities Group for some time now, and **we believe many aspects of the Industrial Strategy can best be delivered through city-to-city collaboration, which brings together business leaders and relevant local institutions.**

14.2. Asks of the Government

The Government should undertake the following.

- Target infrastructure investment based on robust and comprehensive assessments of costs and benefits, not based on unreliable indicators such as per-capita spending. Investment in infrastructure must support regional growth and be responsive to the specialisations and comparative advantages of regions.
- **Avoid framing investment decisions that encourage competition between regions for funding. The Mayor of London supports investments elsewhere and he believes that devolution is the key to ensuring that investments that are economically beneficial can be paid for**. All growth areas should be given greater fiscal responsibilities to enable them to borrow under the current prudential borrowing regime for productive investments.
- Jointly with partners within the Wider South East, we are seeking Government support for the 13 strategic infrastructure schemes and areas set out above - collectively and individually - as it could help to support the delivery of the industrial strategy. We are also keen to collectively engage with the National Infrastructure Commission, Highways England and Network Rail.
- **Ensure cities have access to the flexible innovation funding they need to support inter-city collaboration and enable the local business leadership and coordination required to maximise growth**
- **The Government must ensure that European Regional Development Fund and European Social Fund programmes are replaced from 2019 onwards and wholly devolved to cities, in order to avoid any gaps in provision.**

15. Pillar 10: Creating the right institutions to bring together sectors and places

15.1. Background

- We agree with the vital role institutions play in bringing key partners together and supporting the development and promotion of clusters, city regions and wider sectors.
- A strong institutional framework (universities, funding providers, entrepreneurs, government etc.) has been proved consistently essential in successful economic development. This is at the core of our approach to supporting nascent, emerging and established clusters.
- London's Knowledge Quarter provides one example. It houses the biggest concentration of knowledge-based organisations anywhere in the world, including new arrivals such as the Francis Crick Institute, Google's HQ and the Alzheimer's Research Centre at University College London. Organisations such as the Knowledge Quarter are able to provide deeper connections for institutions within the places they are based and facilitate knowledge exchange and networks across sectors. Lonodn's experience has been that enabling business leadership through these kinds of institutions has been an important part of the city's success. The Knowledge Quarter model is a unique cross-sectoral model with applicability elsewhere in the UK, and the Mayor would be keen to share learning with other cities, and align approaches, as MedCity has done with the Northern Health Science Alliance.
- However, it is not just about institutions in local contexts. The GLA itself is an example of an institution that takes a single, strategic approach to supporting economic growth through a variety of different mechanisms, including close integration of economic development, planning, transport and housing strategies. This approach has potential to be applied elsewhere in the country, and the Mayor is encouraged by the Government's work establishing combined city authorities as a first step in this process.
- In order to support strategy delivery and implementation, the Mayor has established a number of standalone entities which work in partnership with the Mayor, including London & Partners (focusing on trade and international promotion), Old Oak Park Royal Development Corporation (supporting the planning and delivery of a large regeneration site in West London), MedCity (supporting the promotion and growth of the life sciences sector in London and the South East), Homes for Londoners (which will support housing delivery in the capital) and Skills for Londoners (which will advise the Mayor on skills-

related issues and provide strategic oversight of the development of a London Skills Strategy ahead of skills devolution). These entities have potential to be replicated elsewhere to tackle local needs.

- The Thames Estuary Production Corridor is an example of an industrial strategy masterplan underpinned by connectivity, innovation and skills development, aiming to unlock an area of currently low-skilled workers and stilted growth through a strategic London and South East partnership (see Annex 3 for the vision of the creative strand).
- The Mayor would be keen to see continuing support for regional organisations, such as MedCity and the Northern Health Science Alliance, which are set up explicitly to support and promote cluster growth. In London, MedCity promotes the sector's strengths, encourages entrepreneurs and is forging new links between academia and business. The Academic Health Science Centres in Oxford, Cambridge and London are represented on MedCity's management board and MedCity has further networks across the region. The Mayor would welcome the Government's explicit endorsement of these new institutions in the White Paper.
- Mechanisms for agreeing strategic infrastructure priorities are important at local, regional and national levels. Within the Wider South East, the focus of collaboration is currently on addressing barriers to delivering housing and strategic infrastructure investment and promoting the better understanding and consistency of technical evidence and data.
- For strategic infrastructure, there is scope to explore joint governance approaches to infrastructure planning for transport. The West Anglia Taskforce is a good example of effective corridor-based cross-boundary governance.
- The Mayor notes that the recommendation of the London Finance Commission for the GLA, TfL and London Councils to consider developing with partners within the Wider South East a strategic transport and funding proposal for submission to the Government, and to work with the National Infrastructure Commission to form evidence for the National Infrastructure Assessment.

15.2. Asks of Government

The Government should undertake the following:

- Endorse regional organisations such as MedCity in the White Paper.
- Support the development of new institutions in London to promote sectoral growth, such as the East London Fashion Cluster and London Clean Tech Cluster.
- Support the development of the Thames Estuary Production Corridor to unlock regional growth across the South East region and secure the UK's position as a global hub for creative industries, technology, life sciences and digital innovation.
- **Provide an impact assessment on rationalisations for relocating cultural institutions away from the capital to act as anchor tenants for nascent clusters**. Removing these institutions from the capital may result in the breakdown of supply chains and break up converging sub-sectors, for example in TV production and broadcasting. In light of Brexit concerns, such relocations are likely to catalyse related businesses to move to EU rather than other UK cities.
- We seek to raise awareness and recognition of the extent of collaboration occurring in the Wider South East and the benefit it could bring to the wider region. Support and acknowledgement for our joint activities would be welcome.
- **Acknowledge the importance of cities in providing the strategic framework for supporting economic growth, and devolve the necessary freedoms and flexibilities to enable cities to play a full part in the coordination and business leadership required to deliver the industrial strategy**

ANNEXES

Annex 1: Life Sciences sector deal - summary (developed in collaboration with businesses, MedCity and other industry bodies)

Key asks

Innovation

People & skills:

- Any future immigration system for EU and non-EU nationals needs to be as flexible as possible in order to ensure that our life sciences sector continues to have access to a varied and deep pool of labour.
- Establish a 'National Recruitment Fund' to grow the UK's life sciences talent pool by supporting the attraction and retention of overseas and home-grown scientific and entrepreneurial talent.

Science & research base:

- Government to provide assurance now that the level of scientific R&D funding will be maintained post-2020, including ensuring that UK researchers do not lose out if they are no longer able to apply for EU funding.
- Establish a 'UK Innovative Medicines Initiative (IMI)' to ensure that UK companies and researchers do not lose out on opportunities to establish pre-competitive collaborations, which aim to speed up the development of better and safer medicines for patients.
- Create an International Engagement Fund to enable the DIT to draw more formally upon the expertise of organisations including MedCity, in order to to help maximise the impact and depth of international engagement in life sciences.

Manufacturing:

- Government funding to support academic GMP manufacturing and cell processing capacity.

Regulation and the European Medicines Agency (EMA)

Government to:

- Ensure that the post-Brexit regulatory system does not put UK companies – and patients –at a disadvantage.
- Recognise the potential impact on the life sciences ecosystem of the relocation of the EMA, and seek to support its retention in the UK.

Infrastructure

Life sciences workspace

- Establish a Scientific Infrastructure Support Fund to cover the difference in capital costs between bioincubation space and office/residential builds.
- Department of Health and NHS England to encourage NHS Trusts to utilise existing research and hospital space more fully for R&D activity.

Construction VAT

- Please see annex 4 for our submission on VAT obstacles to public/private sector collaboration in university research buildings and publicly-funded or charity research institutions.

Funding gaps, patient capital, access to finance

Addressing the Drug Development Funding Gap for UK Life Sciences Growth

Please see separate GLA paper in annex 4 [confidential].

Innovation and procurement

NHS uptake of innovation

- Establish an NHS 'Invest to Save' scheme to drive the uptake of innovation and ultimately reduce improve efficiency by reducing healthcare spend.

Annex 2 – London Economic Action Partnership response

In December 2016 the Mayor of London established a new Local Enterprise Partnership for London. The London Economic Action Partnership (LEAP) oversees the London Growth Hub, which brings together the capital's vast business support offer into a single online resource, uses growth funds to support targeted regeneration-led initiatives throughout the city and provides strategic oversight of the Royal Docks Enterprise Zone and London's European Structural & Investment Funds.

LEAP will also play a key role in supporting the Mayor to develop and implement the statutory Economic Development Strategy, but unlike many other LEPs, will not lead on areas such as infrastructure, transport and international promotion. LEAP will instead work with existing institutions within London to ensure alignment across these key drivers of economic growth. On this basis LEAP has been consulted on the Mayor's response outlined in this document, with a lead member identified for supporting the development of the Mayor's response and the specific asks of the Government as outlined in this document. In addition, the following areas have been highlighted where LEAP will take a lead role.

Business-led approach

As a business-led partnerships with strong SME representation, LEAP is well placed to lead on and influence specific initiatives to support businesses to start and grow (pillar 4). As part of this work, LEAP will look at ways of improving procurement (pillar 5) for the benefit of London's SMEs and scale-ups. Supporting the implementation of the Industrial Strategy in these areas will be a key factor for consideration as LEAP works to identify strategic actions to support economic growth and job creation in the capital.

Supporting small business to start and grow

Emerging work in this area focuses on supporting businesses looking to grow moderately as well as those with rapid growth potential and sustaining existing scale-ups. This dual approach outlined in the Green Paper is therefore welcomed.

Areas of focus are likely to include:

- Addressing threats to London's SME ecosystem (e.g. the impact of business rates revaluation, Permitted Development Rights, access to affordable workspace)
- Access to finance for growing SMEs;
- Leadership and management skills; and
- Building business-to-business networks

These areas of focus will be supported through a mixture of direct interventions and triage and promotion of London's existing offer via the London Growth Hub. As part of the Mayor's 'economic fairness' agenda, the London Growth Hub will also focus on specific barriers to enterprise faced by female and BAME owned businesses and entrepreneurs.

Improving procurement

LEAP is keen to explore ways in which public and private procurement activity can support the growth of SMEs and scale-up businesses. This could include action to:

- Transform digital procurement through emerging technologies in order to simplify access to public sector opportunities for SMEs;
- Use the GLA group's role as a public buyer to encourage use of SMEs in the supply chain;
- Identify innovative ways to support businesses to meet the requirements of the Prompt Payment Code in order to ensure SMEs are paid on time.

Annex 3: Thames Estuary Production Corridor Vision document

[see separate pdf]

Annex 4 VAT Obstacles to public/private sector collaboration in university research buildings and publicly funded or charity research institutions

[confidential]

Annex 5 – Overview of the GLA and Mayor's role

Mayoral responsibilities:

The Mayor, Sadiq Khan, sets an overall vision for London and this is outlined in his vision document 'A City for all Londoners'. He has a duty to create plans and policies for the capital covering a number of areas including transport, policing, fire services, strategic planning, housing, economic development, environment. Other priorities for the Mayor include higher education, foreign investment and attracting events and conferences to London. He is the Chair of Transport for London.

The London Assembly:

The Assembly holds the Mayor and Mayoral advisers to account by publicly examining policies and programmes through committee meetings, plenary sessions, site visits and investigations. 25 Assembly members are elected at the same time as the Mayor. Eleven represent the whole capital and 14 are elected by constituencies.

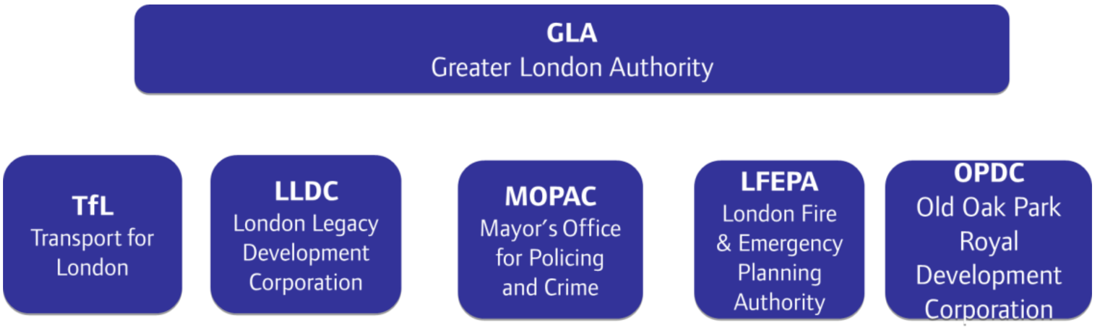
The Mayor must consult Assembly Members before producing statutory strategies and the multi-billion pound budget for the GLA Group. The Assembly can reject the Mayor's strategies and amend the draft budget if a majority of two-thirds agree to do so.

About the Greater London Authority

The Greater London Authority (GLA) is the strategic authority for London and supports the Mayor and the London Assembly in delivering their respective responsibilities and functions. The Greater London Authority was established in 1999, with the first Mayor being elected in 2000. The GLA is unique in the British local government system, in terms of structure, elections and selection of powers.

The GLA's five functional bodies are its principal delivery arms: the Mayor's Office for Policing and Crime (MOPAC; overseeing the work of the Metropolitan Police Service - MPS); the London Fire and Emergency Planning Authority (LFEPA); Transport for London (TfL); the London Legacy Development Corporation (LLDC) and the Old Oak Common and Park Royal Development Corporation (OPDC).

Diagram: GLA and its functional bodies:



GLA Group Budget

The gross expenditure for the GLA, Assembly and each functional body is funded through a combination of resources directly controlled and allocated by the Mayor and other sources of income such as specific government grants and fares income. The Mayor sets the budget for the GLA (including the London Assembly) and its five functional bodies (together known as the GLA Group).

The proposed total budget for the GLA Group for 2016-17 was £15.8 billion. This comprises a revenue budget of £11.7 billion and a draft capital spending plan of £4.1 billion